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Online shopping and potential changes to the low value threshold: costs and benefits for government, consumers and retailers

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Economics Section

Executive summary

- Australians spent \$15.7 billion in the year to August 2014 buying online from both international and Australian retailers. Online shopping by Australians has increased over time, and is likely to continue doing so. A significant portion of Australian purchases online are from Australian retailers.
- The low value threshold (LVT) exempts eligible imports below \$1,000 in value from a number of Commonwealth legal requirements. One of these exemptions is that goods below \$1,000 in value are generally not subject to the goods and services tax (GST).
- This LVT exemption enables international retailers to sell to Australian consumers without charging GST. This can contribute to a price differential between goods sold by Australian retailers and by international retailers, which can be a significant factor in consumer choices. To the extent that the LVT influences consumer choices (and thus reduces the impact of underlying market factors), it distorts competition between Australian and international retailers.
- The LVT is not indexed, and has remained at \$1,000 since 1985, losing value in real terms. If indexed, the threshold would be significantly higher.
- The majority of imported items below the LVT are quite low in value (many are less than \$100).
- To collect GST on items below the LVT would require additional processing. The cost of this additional processing depends on the level at which a new threshold would apply—whether at zero, or some value between zero and \$1,000.
- Depending on the level at which a new threshold is applied, the cost of the additional processing required might be greater than the revenue raised, resulting in a net cost. This would reduce the GST revenue flowing to state and territory governments.
- A number of previous reviews have examined the issue:
 - The Productivity Commission recommended in 2011 that the LVT not be lowered unless it was cost-effective to do so, and that further work be undertaken.
 - The Low Value Parcel Processing Taskforce undertook more detailed research in 2012. They recommended further analysis, and that any goods which were subject to a lower GST threshold also be subject to border agency fees and charges.
- A number of countries apply fees and charges to incoming international mail items. These fees and charges cover the cost of processing, enabling governments to collect tax revenue on low-value items.

- Previous analysis suggests that removing the LVT (charging GST on all items) would have a very marginal negative impact on the economy overall, but would benefit the retail sector.
- The extent to which state and territory governments, household or retail sectors benefit or lose from changes would depend on the level at which the threshold is set, and whether fees and charges are used to cover the cost of processing.

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Introduction

Imposing the goods and services tax (GST) on different types of imports has been a contentious topic for some time.¹ Different parts of Australian society stand to benefit or lose significantly depending on how, or whether, the system is changed.

This paper outlines the regulatory framework, including the relationship between online shopping and the LVT. Issues identified in major reviews—in particular by the Productivity Commission and the Low Value Parcel Processing Taskforce (LVPPT)—are summarised.² This paper also discusses the trade-offs between benefits or harms to different parts of society if the low value threshold (LVT) was changed.

Online shopping in Australia

A key driver in this debate is the significant growth in online shopping by Australians. Although exact numbers are uncertain, the National Australia Bank estimated that in the 12 months to August 2014 (its latest available data), ‘Australians spent \$15.7 billion on online retail’.³ This is likely to increase over time: in 2012 a PricewaterhouseCoopers report projected 14 per cent average annual growth for online shopping until 2016.⁴

Australians buy online from both Australian retailers and their international competitors, with varying estimates as to what the relative proportions are. The Australian Bureau of Statistics (ABS) estimates that between September 2013 and August 2014, Australians retailers sold around \$6.6 billion worth of goods online.⁵ National Australia Bank data suggests that, on average, a little over a quarter of Australian online spending goes to international retailers, with the remainder to Australian online retailers (see ‘[Shopping online and offline](#)’ below for more detail).⁶

The low value threshold

To enter Australia, imports must typically meet a number of processing and tax requirements. The LVT ‘exempts most imports with a value of less than \$1000 from GST, customs duty, fees and charges, and the requirement to complete a full import declaration’.⁷ The LVT is thus relevant to multiple separate Commonwealth legal requirements. These are the formal entry requirements (in accordance with the *Customs Act 1901*), customs duties and GST (which are imposed by the *Customs Tariff Act 1995* and *A New Tax System (Goods and Services Tax) Act (GST Act) 1999*, respectively), and import processing charges (imposed by the *Customs Act*).⁸

The requirements are that:

- imports arriving in Australia ‘must be reported to Customs and Border Protection’.⁹ Section 68 of the *Customs Act* exempts some low-value imports from formal entry requirements.¹⁰
- customs duty (if any) and GST (if applicable) are normally applicable to imports. By-laws made under the *Customs Tariff Act* specify those imports below a certain LVT on which no customs duty is payable.¹¹ The *GST Act* provides that imports under the LVT are non-taxable importations and so are exempt from GST.¹²
- import processing charges only apply to imports over \$1,000 in value.¹³

1. For example T Barlass, ‘[Retailers seek tax review as online shoppers avoid GST](#)’, *Sun Herald*, 24 October 2010, p. 32, and more recently ‘[Retailers seek GST overhaul](#)’, *Daily Telegraph*, 21 March 2014, p. 26 or S Mitchell, ‘[Costello backs lower GST threshold](#)’, *Canberra Times*, 19 August 2014, all accessed 13 October 2014.
2. Productivity Commission (PC), [Economic structure and performance of the Australian retail industry](#), PC, Canberra, 9 December 2011, p. 170, accessed 13 October 2014; Low Value Parcel Processing Taskforce (LVPPT), [Final report](#), July 2012, pp. 1–20.
3. National Australia Bank (NAB), [NAB online retail sales index monthly update—August 2014](#), NAB, 30 September 2014, accessed 13 October 2014.
4. PricewaterhouseCoopers (PwC), [The rapid growth of online shopping is driving structural changes in the retail model](#), PwC, July 2012, p. 7, accessed 13 October 2014.
5. Australian Bureau of Statistics (ABS), ‘[Online retail turnover, Australia, by Type of Activity](#)’, *Retail Trade, Australia, August 2014*, cat. no. 8501.0, ABS, Canberra, 2014, Table 1, p. 20. The ABS is able to collect data on online sales by domestic retailers only, and not on purchases from international online retailers.
6. NAB, [NAB online retail sales index—In-depth and special report—July 2014](#), 3 September 2014, Chart 2, p. 3, accessed 13 October 2014.
7. PC, [Economic structure and performance of the Australian retail industry](#), op. cit., p. 170.
8. [Customs Act 1901](#), accessed 14 October 2014; [Customs Tariff Act 1995](#), accessed 14 October 2014.
9. LVPPT, [Interim report](#), LVPPT, March 2012, p. 41, accessed 14 October 2014. See the *Customs Act*, sections 68–77A.
10. Section 68 of the *Customs Act* specifies different thresholds for postal and cargo items. However, regulation 31AC of the [Customs Regulations 1926](#) aligns these threshold amounts up to \$1,000.
11. *Customs Tariff Act*, Schedule 4, Item 26; Customs By-law No. [1305011](#).
12. [GST Act](#), subsection 42-5.

Imports above \$1,000 in value are generally subject to these requirements.

Shopping online and offline

As outlined in Table 1, the LVT applies to most imports regardless of whether an item is bought online. Items sold by Australian retailers (regardless of whether the purchase is made in person or online) are subject to the GST.

Table 1: Online shopping and imports into Australia

	Bought from Australian retailers	Bought from international retailers
Ordered online	<p><i>Subject to the GST</i></p> <p>Because these items are generally either imported by Australian retailers prior to being sold, or are made in Australia, they are subject to the GST.</p> <p>The Australian Bureau of Statistics (ABS) estimates that Australian retailers made \$6.6 billion worth of sales online between September 2013 and August 2014.</p> <p>National Australia Bank data suggests that typically around three-quarters of Australian online spending goes to Australian retailers.</p>	<p><i>Exempt from GST if below the LVT</i></p> <p>These items may be exempt from GST if they fall below the LVT. It is likely that a significant number, if not a majority, do. For information on the proportion of items that may fall below the LVT, see Imports into Australia below.</p> <p>The Australian Bureau of Statistics does not have estimates for this category; however National Australia Bank's historical data suggests that approximately a quarter of online spending by Australians goes to international retailers.</p>
Ordered offline	<p><i>Subject to the GST</i></p> <p>This represents the majority of Australian retail activity.</p> <p>The Australian Bureau of Statistics estimates that non-Internet retail turnover for Australian business (including both purchases in person and telephone/mail orders) was approximately \$264.7 billion in the period September 2013 to August 2014.</p>	<p><i>Exempt from GST if below the LVT</i></p> <p>There are no clear estimates of the proportion of items that are purchased via mail or over the telephone.</p>
Purchased in person	<p>The Australian Bureau of Statistics estimates that non-Internet retail turnover for Australian business (including both purchases in person and telephone/mail orders) was approximately \$264.7 billion in the period September 2013 to August 2014.</p>	<p><i>Exemption from GST for \$900 worth of goods that are not personal belongings</i></p> <p>Particular rules apply to alcohol and tobacco; but in general personal goods that are owned or used overseas for more than 12 months are exempt. For general goods that do not meet that criterion, \$900 worth can be brought in before GST applies.</p>

Sources: Australian Bureau of Statistics (ABS), [Retail Trade, Australia, August 2014](#), cat. no. 8501.0, ABS, Canberra, 2014, tables 1 and A1; NAB, [NAB online retail sales index monthly update—August 2014](#), op. cit.; NAB, [NAB online retail sales index—In-depth and special report—July 2014](#), op. cit.; Australian Customs and Border Protection Service (ACBPS), [‘Duty free concessions’](#), ACBPS website, accessed 14 October 2014; ACBPS, [‘Passenger concessions—frequently asked questions’](#), ACBPS website, accessed 14 October 2014. ABS figures quoted are original (not seasonally adjusted or trend) as only original data are available for online Australian sales, and are limited to industries covered by the retail trade publication (ABS, [‘8501.0 - Retail Trade, Australia, Aug 2014: Explanatory Notes’](#), ABS website, 1 October 2014, accessed 20 October 2014).

Estimating the proportion of items that are imported (or bought online) which may fall below the LVT is difficult. Data from the LVPPT suggests that fewer than one per cent of international mail items are above the LVT, although a higher percentage of air and sea cargo items are likely to be above the LVT.¹⁴

Australian and international retailers in competition

The operation of the LVT creates a price difference between goods purchased online from international retailers, and those purchased in person or online from Australian retailers. The National Retail Association (NRA) Chief Executive, Trevor Evans, has highlighted this as an issue, saying ‘the unfair tax loophole currently in place for

13. *Customs Act*, section 71B imposes import declaration processing charges for items liable under section 68.

14. LVPPT, [Final report](#), op. cit., Table 2.2.1, p. 31, Table 2.2.3, p. 33, and Table 2.2.6, p. 35.

overseas retailers gave a price advantage of up to 25 per cent—when import duties and customs charges were also taken into account’.¹⁵ Similarly, in a submission to the National Commission of Audit, the NRA stated:

The current operation of the GST and customs regime puts our businesses at an immediate price disadvantage compared with foreign competitors. Local retailers are not requesting special treatment or protection – we just want a fair go so we can properly compete on a level playing field. The current regime actively discriminates in favour of foreign companies.¹⁶

The broad range of goods bought online and the lack of detailed information make it difficult to accurately assess how much influence the LVT exemption has on consumer choices, and how much of an impact the LVT, which allows comparable goods to be imported to Australia without the application of GST, has on the Australian retail sector.

In 2012, PricewaterhouseCoopers (PwC) reported that price was a significant factor in driving online shopping.¹⁷ However, the price difference between Australian and international retailers may represent lower operating costs that contribute to lower prices, as well as the LVT exemption from GST and duties. In September 2013 consumer group Choice stated that in a survey of 1,000 Australian consumers, 12 per cent listed ‘savings on “duties and taxes by purchasing on overseas websites” as a reason for shopping online’.¹⁸ Choice also reported that of those who said purchasing online was a way to pay lower prices or save on paying taxes and duties, 68 per cent reported saving more than 15 per cent from overseas websites, while 43 per cent reported saving over 25 per cent. However, Choice data also showed that for around 23 per cent of those who listed savings as a reason for purchasing online, the price differential was between 0–15 per cent.¹⁹

Factors such as convenience and a greater range (or being able to purchase items unavailable in Australia) can also contribute to consumer decisions.²⁰ In a report commissioned by the NRA, Ernst and Young concluded that regardless of changes to the LVT ‘84,600 jobs would be lost to the traditional sector due to the structural changes and competition caused by the growth of online retailing’.²¹

Previous levels of the low value threshold

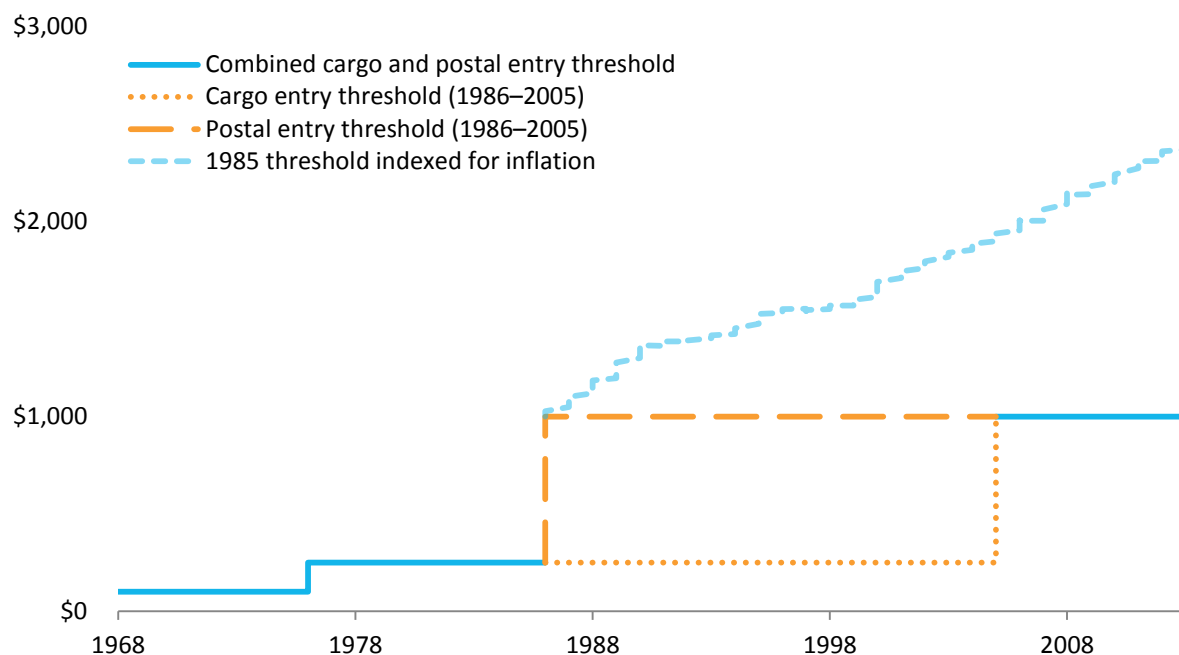
The current system is simple and consistent, in that a single threshold exempts low-value imports from entry requirements, duty and sales taxes and processing charges, and applies equally to cargo and mail items. This has not always been the case.

Exemptions from entry requirements

Thresholds for the exemption from entry requirements were different for cargo and postal items between 1986 and 2005, when they were re-aligned. In its 2010 report, the Board of Taxation noted that because the threshold was not indexed, the real value of goods under the threshold would fall over time, and that this would ‘reduce over time any potential bias in favour of imported goods over local goods of the same quality and value’.²² Figure 1 below shows different thresholds over time, and the level the postal threshold would have reached if it had been indexed from its value in 1986.

15. National Retail Association (NRA), [Misleading information? ‘Choice’ should name and shame itself](#), media release, 2 December 2013, accessed 14 October 2014.
16. NRA, [Protecting the integrity of the GST system: submission to the National Commission of Audit](#), November 2013, pp. 8–9, accessed 14 October 2014.
17. PwC, op. cit., p. 7.
18. M Cartwright, [‘Retailers’ GST campaign discredited](#)’, Choice website, accessed 14 October 2014; Choice, *Pre-Budget submission: Consumer priorities in the 2014–15 Federal Budget*, January 2014, p. 7, fn. 16.
19. Ibid; Choice, *Choice survey on consumer choices—online shopping*, November 2013, supplied data.
20. PwC, op. cit., p. 19; The Allen Consulting Group on behalf of eBay, Submission to the Productivity Commission, [Inquiry into the economic structure and performance of the Australian retail industry](#), June 2011, pp. 7–9.
21. Ernst and Young, [The threshold question: economic impact of the low value threshold on the retail industry](#), 22 February 2012, p. 2.
22. The Board of Taxation, [Review of the application of GST to cross-border transactions: a report to the Assistant Treasurer](#), February 2010, p. 46.

Figure 1: Exemption from entry requirements for low-value items

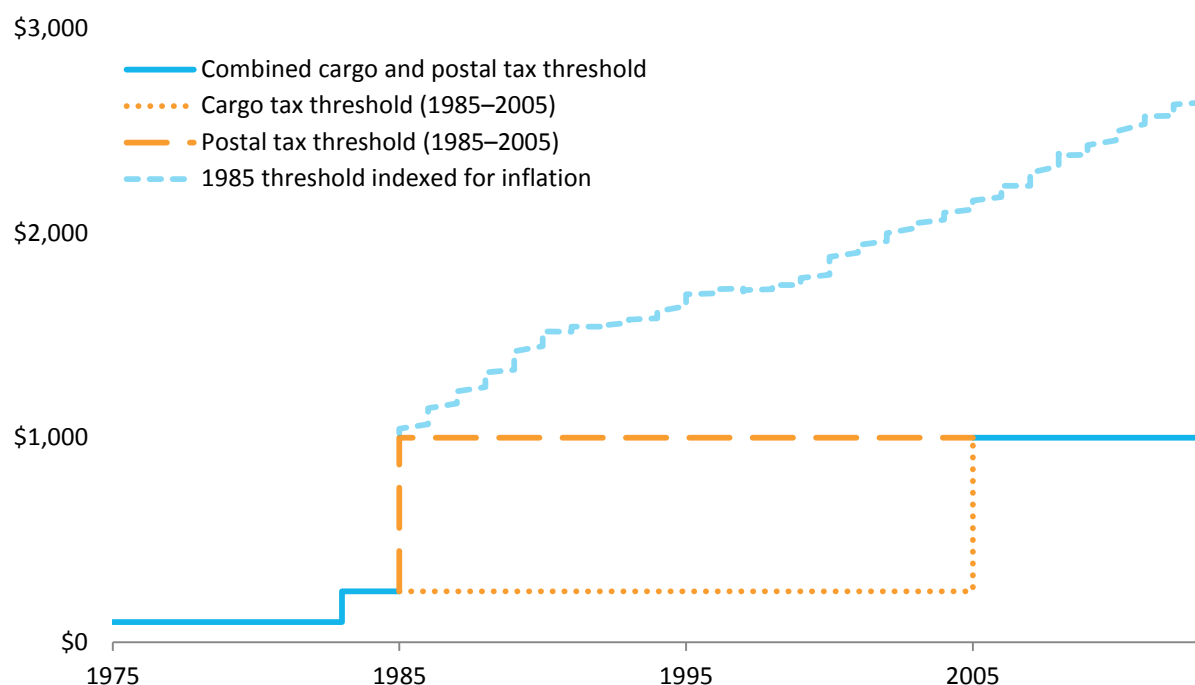


Compiled from a number of sources.²³

Thresholds for duty and sales tax exemptions

There have also been distinct thresholds for exemption from duty and sales tax for cargo and postal items. These were different between 1985 and 2005 (as shown in figure 2, below); they were then aligned for both cargo and postal items, and for the exemptions from entry requirements and GST.

Figure 2: Exemption from sales tax and duty requirements for low-value items



Compiled from a number of sources.²⁴

23. Australian Customs Service, Submission to Joint Committee of Public Accounts and Audit, *Inquiry into Internet commerce 1998*, 29 September 1997; Explanatory Statement, [Customs By-law No. 0540004](#), October 2005; ABS, [Consumer Price Index, Australia, December 2013](#), cat. no. 6401.0, Table 1, ABS, Canberra, 2014, all accessed 14 October 2014.

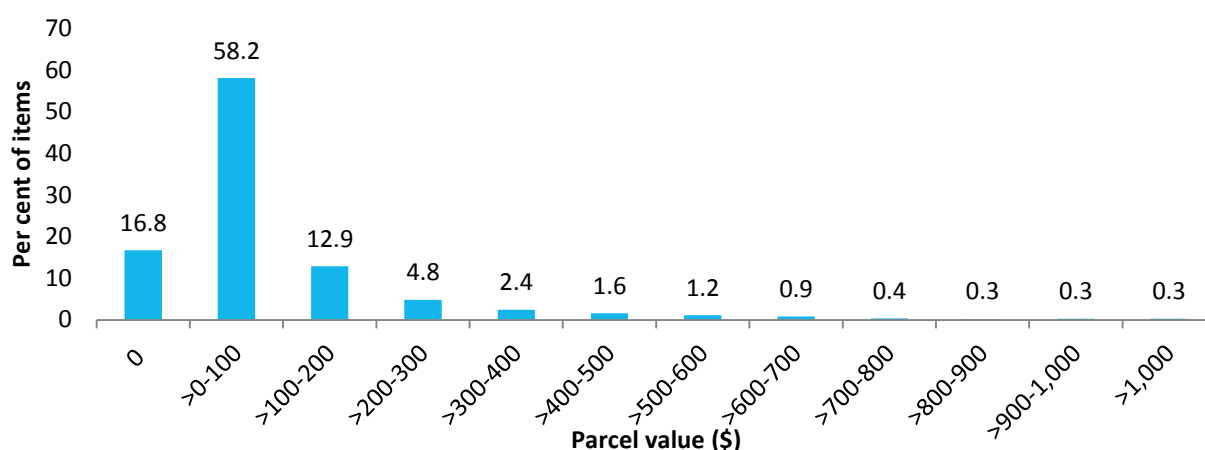
Imports into Australia

The LVT applies regardless of whether the items are imported via post, or air or sea cargo. Based on 2010–11 data from the Australian National Audit Office and the LVPPT, most imports arrive by post:²⁵

- in 2010–11 ‘there were 13.9 million air and 2.3 million sea cargo consignments’ and²⁶
- in the same period there were approximately 48 million ‘international mail items comprising Express Mail Service (EMS) items, packets (items less than 2kg) and parcels (items over 2kg)’.²⁷

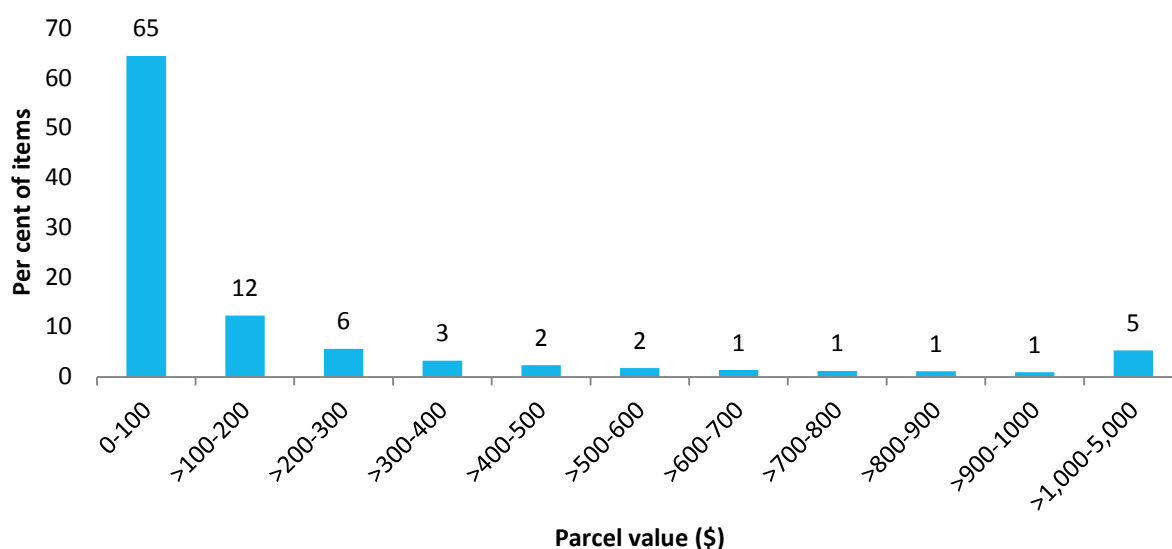
The majority of postal items are below \$100 in value, and of those air cargo items below \$5,000, the majority have a value lower than \$100. Figures 3 and 4 show the distribution of post and air cargo items.

Figure 3: Distribution of a sample of international mail item values



Source: LVPPT, [Final report](#), 2012, Table 2.2.1, p. 31. Values are for a sample taken between 29 November and 3 December 2010.

Figure 4: Distribution of air cargo item values (2010–11)



Source: LVPPT, [Final report](#), 2012, Table 2.2.3, p. 33.

24. Australian Customs Service, Submission to Joint Committee of Public Accounts, *Inquiry into Internet Commerce 1998*, 29 September 1997. Explanatory Memorandum, [Customs By-law No. 0540004](#), October 2005; ABS, [Consumer Price Index, Australia, December 2013](#), cat. no. 6401.0, Table 1, ABS, Canberra, 2014, all accessed 14 October 2014.

25. The proportion of imports coming by air or sea cargo or via post would likely differ if measured in terms of value (the total price of imports) or volume (the total physical size of some imports, which would not be a particularly useful measure for some imports).

26. The Auditor-General, [Risk management in the processing of sea and air cargo imports](#), Audit Report No. 15, 2011–12, 30 November 2011, p. 12.

27. LVPPT, [Final report](#), op. cit., p. 29.

Data is unfortunately unavailable for the distribution of sea cargo items below \$1,000. They represent only a small fraction of imports below the LVT.²⁸

Previous reviews and the Low Value Parcel Processing Taskforce

The Board of Taxation and the Productivity Commission

The issue of whether to apply GST to low-value imports has been examined by a number of reviews. In February 2010 the Board of Taxation completed a review of how GST was applied to cross-border transactions.²⁹ As part of that review, it noted industry concerns, but recommended against applying GST to imports below the low value threshold.³⁰

The Productivity Commission completed an inquiry into the Australian retail industry in November 2011, including a chapter on GST arrangements and their impact on Australian retailers.³¹ The report included a discussion of indirect tax (GST) arrangements and their impact on Australian retailers.³² The Productivity Commission concluded that the LVT ‘distorts consumer choices in favour of overseas online retailers’, and that on theoretical grounds GST should be applied to low-value imports.³³

However, the Productivity Commission recommended that ‘...the Government should not proceed to lower the LVT unless it can be demonstrated that it is cost effective to do so’.³⁴ Instead, the Productivity Commission recommended that an inter-agency taskforce be established to investigate ‘new approaches to the processing of low value imported parcels ... and recommending a new process’.³⁵ Once the improved process had been designed, the Productivity Commission recommended that ‘the Australian Government should reassess the extent to which the LVT could be lowered while still remaining cost-effective’.³⁶

The Low Value Parcel Processing Taskforce

On 9 December 2011, in response to the Productivity Commission’s recommendation, the Government announced the creation of a taskforce to review options in relation to the LVT.³⁷ The LVPPT’s interim report was released in March 2012 with the final report released in July 2012.³⁸ The final report made 15 recommendations, including that:

...reform to the handling and administration of low value goods, incorporating a new option to collect revenue, would best be achieved through the application of simplified GST assessment arrangements for low value imported goods between a separate low value GST threshold set above \$0 and below \$1,000. This would require modifications to existing processes...³⁹

The report also recommended that border agency fees and charges should apply to any items liable to GST below the \$1,000 threshold.⁴⁰ The LVPPT final report noted that this may require an amendment to the *Import Processing Charges Act 2001*.⁴¹

Collection costs with a lower threshold

One of the significant issues in creating a lower GST threshold for low-value imports is the cost of collection. A lower threshold would mean additional processing and handling, and these associated costs would vary depending on the level to which the GST threshold is lowered. Schedule D of the *Intergovernmental Agreement*

28. LVPPT, [Final report](#), op. cit., p. 35.

29. The Board of Taxation, [Review of the application of GST to cross-border transactions: a report to the Assistant Treasurer](#), op. cit.

30. Ibid., p. 47.

31. PC, [Economic structure and performance of the Australian retail industry](#), op. cit., Chapter 7, pp. 169–214.

32. Ibid., pp. 169–214.

33. Ibid., pp. 169 and 188.

34. Ibid., p. 214.

35. Ibid., p. 214.

36. Ibid., p. 214.

37. B Shorten (Minister for Financial Services and Superannuation and Minister for Employment and Workplace Relations), S Conroy (Minister for Broadband, Communications and Digital Economy), B O’Connor (Minister for Home Affairs and Justice) and N Sherry (Minister for Small Business), [New council to advise Government on future of sector](#), media release, 9 December 2011, accessed 14 October 2014.

38. LVPPT, [Interim report](#), op. cit.; LVPPT, [Final report](#), op. cit.

39. LVPPT, [Final report](#), op. cit., pp. 14–19; LVPPT, [Final report](#), op. cit., recommendation 5.1, p. 15.

40. Ibid., recommendation 4.6, p. 17.

41. [Import Processing Charges Act 2001](#), accessed 14 October 2014.

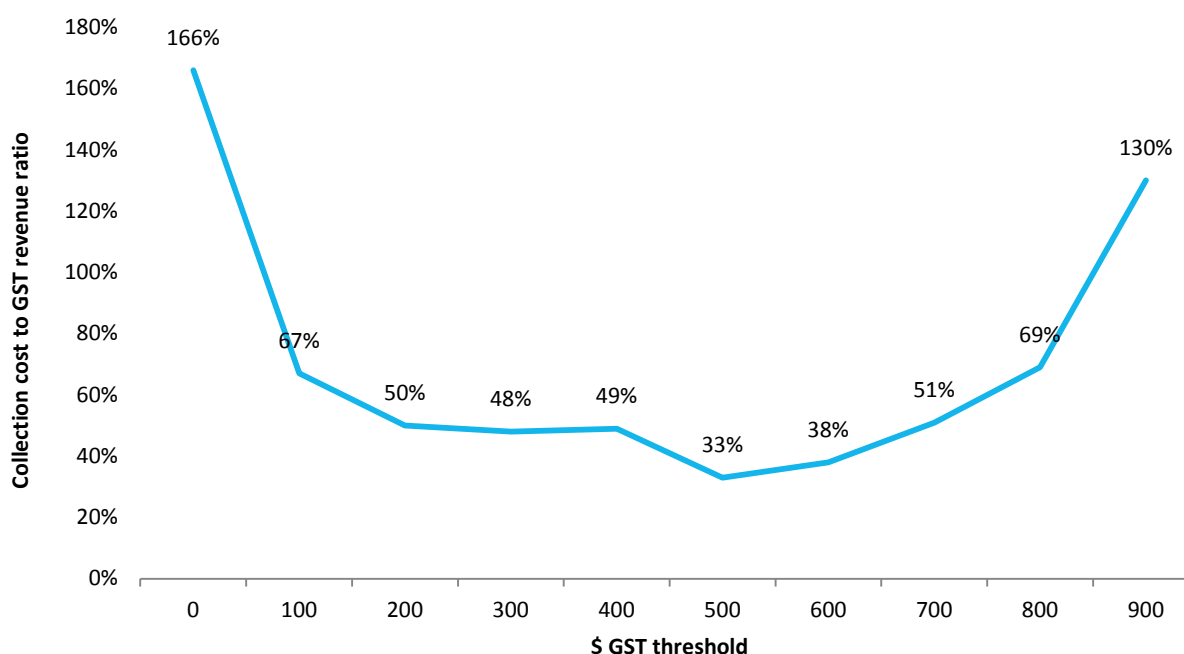
on *Federal Financial Relations* requires that states and territories cover the costs borne by the Commonwealth in collecting GST.⁴²

The LVPPT estimated some of the costs associated with a lower GST threshold. Because of the high proportion of items that are below \$100 in value (see figures 3 and 4 above), the taskforce noted:

...the aggregate collection costs just for the international mail environment at the zero threshold level would be around \$450 million in 2014, compared to approximately \$11 million at the \$500 threshold level. This difference is due to the very high proportion of goods in the lower value bands.⁴³

Figure 5 shows the ratio of revenue to collection costs for international mail. The taskforce concluded that a small change in threshold (not substantially different from the current \$1,000 level) would be cost inefficient because of the low number of items. Conversely, a very low threshold might be cost inefficient because of the high number of very low-value items. Additionally, the taskforce noted that the 'results at the lower thresholds also point to the sensitivity of financial outcomes to variations in collection costs at those levels'—the cost of processing parcels has a significant impact on how cost-effective a lower threshold is.⁴⁴

Figure 5: Adjusted collection costs to GST revenue ratio for international mail



Source: LVPPT, [Final report](#), 2012, Figure 4.3.5, p. 196. A \$0 threshold means that all items would be assessed for GST, while a \$100 threshold means that items below \$100 in value would be exempt. The LVPPT report did not provide a more detailed cost-revenue ratio estimate for thresholds between \$0–\$100.

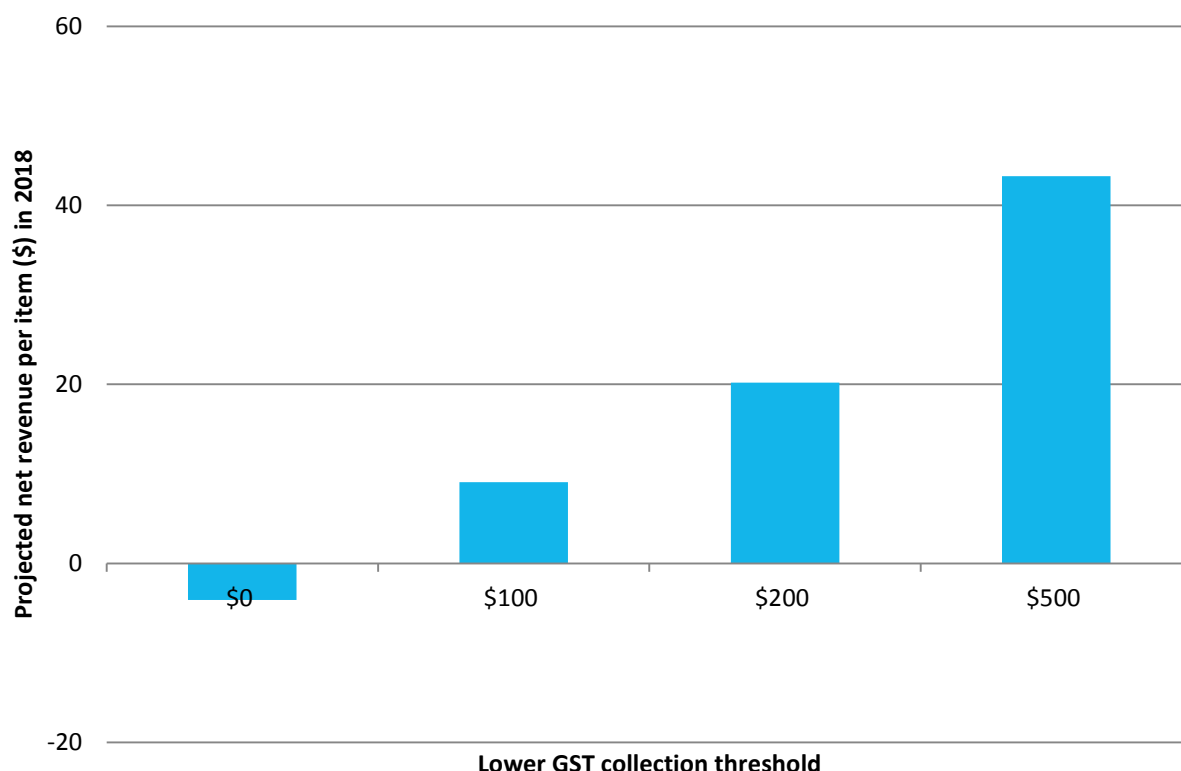
Projections from the LVPPT of the potential average revenue and collection cost per item in 2018 suggest that collecting GST on all items could result in a net loss, as per figure 6 (\$0 threshold).

42. [Intergovernmental Agreement on Federal Financial Relations](#), Schedule D, paragraphs D68-D71, accessed 14 October 2014.

43. LVPPT, [Final report](#), op. cit., p. 188.

44. Ibid., p. 196.

Figure 6: Projected net revenue per item at different thresholds for international mail in 2018



Source: LVPPT, [Final report](#), 2012, Table 4.3.7, p. 197, and Parliamentary Library analysis.

International comparisons for low-value imports

While collection costs could be prohibitive if the LVT were removed or lowered significantly, processing fees or charges (paid by recipients) are a potential option to offset the cost of collecting the GST. The LVPPT final report recommended that 'border agency fees and charges should apply to goods valued below \$1,000 to which GST is applied'.⁴⁵ This would enable the government to collect the additional revenue associated with a lower GST threshold, while processing charges would defray the cost of collecting GST revenue.

A number of countries apply a much lower threshold for tax collection, but also apply processing charges for lower value parcels—whereas in Australia, charges only apply for items over the LVT. The table below summarises (and where possible, updates) some of the information provided in the LVPPT interim report.⁴⁶

Table 2: International low-value import schemes

Country	Thresholds				Processing charges
	VAT/GST	Gift (a)	Duty	ID requirements	
Australia	A\$1,000	–	A\$1,000	A\$1,000	For consignments between \$1,000–\$10,000 in value charges range between \$40.20 and \$50. (b)
Britain (f)	£15 (A\$27.15)	£40 (A\$72.41)	£135 (A\$244.38)	£2,000 (A\$3,620.51)	Royal Mail charges an £8 (A\$14.48) processing fee.
Canada	C\$20 (A\$20.09)	C\$60 (A\$60.27)	C\$20 (A\$20.09)	C\$1,600 (A\$1,607.17)	C\$9.95 (A\$9.99) (c)
New	NZ\$400	NZ\$110	NZ\$400	NZ\$1,000	In some cases fees are applicable –

45. LVPPT, [Final report](#), op. cit., p. 17, accessed 14 October 2014.

46. LVPPT, [Interim report](#), op. cit., pp. 49–50, accessed 14 October 2014.

Country	Thresholds				Processing charges
	VAT/GST	Gift (a)	Duty	ID requirements	
Zealand	(A\$364.77)	(A\$100.31)	(A\$364.77)	(A\$911.94)	NZ\$29.26 (A\$26.68) + biosecurity levy NZ\$17.63 (A\$16.08) (d)
United States	—	US\$100 (A\$109.18)	US\$200 (A\$218.37)	US\$2,500 (A\$2,729.58) (e)	US\$5.50 (A\$6.01) (Customs) + US\$5.35 (A\$5.84) (Post)

Compiled from a number of sources; values in Australian currency depend on the exchange rate used, which varies over time.⁴⁷

Notes: (a) Some countries allow gifts below a certain value an exemption from charges and duties; this is effectively a distinct threshold that only applies to gifts, but not to items purchased from international retailers; (b) The [Import Processing Charges Act 2001](#) (Cth), and [Import Processing Charges Regulations 2006](#); (c) Canada Border Services Agency, 'Importing by mail—Duty, Taxes and Handling Fees on items mailed to you', Canada Border Services Agency website, accessed 14 October 2014; (d) New Zealand Customs Service, 'Advice on Importing Goods into New Zealand', Customs fact sheet, May 2014, accessed 14 October 2014; (e) United States Customs and Border Protection, 'Importers—Social Security number/Tax Identification Number/IRS Number/Importer Number requested by overseas supplier', United States Customs and Border Protection website, accessed 14 October 2014; (f) The United Kingdom does not charge duty on goods imported from the European Union (Her Majesty's Revenue and Customs (HMRC), 'Customs Duty, Excise Duty and import VAT: introduction', HMRC website, accessed 14 October 2014).

Winners and losers from changes to the system

The overall economic impact

Different stakeholders have commissioned modelling at different points to estimate the impact of changes to the LVT on the Australian economy. The Productivity Commission has also analysed the broad impacts of changes to the LVT.

The online retailer eBay commissioned a submission to the 2011 Productivity Commission inquiry that included modelling of a reduction in the GST threshold from \$1,000 to \$250.⁴⁸ The analysis predicted very marginal decreases in employment and GDP as a result of lowering the LVT.⁴⁹

The NRA commissioned research in 2012 which estimated that 'around 118,700 traditional retail jobs in Australia could be lost to the online sector by 2015'.⁵⁰ Of those jobs lost, the report estimated that 33,400 'directly related to retail sales going to overseas online providers as a result of the continued operation of the LVT'.⁵¹ The remaining 84,600 potential job losses 'would be lost to the traditional sector due to the structural changes and competition caused by the growth of online retailing'.⁵²

In its analysis the Productivity Commission estimated that 'with current parcel volumes and processing costs, removal of the LVT would generate revenue of around \$600 million at a cost of well over \$2 billion borne by businesses consumers and government'.⁵³

Different sectors within Australia

The three key sectors in Australia impacted by any changes to the LVT are retail businesses, governments and consumers (the household sector).

While the LVT simplifies administrative and regulatory requirements, it also provides an advantage to international retailers unavailable to Australian retailers. The Productivity Commission noted that 'in principle,

47. Unless otherwise referenced, charges and thresholds are drawn from the LVPPT, [Interim report](#), op. cit., pp. 49-50. Currency conversion rates are based on a 12 month average (October 2013 to September 2014) from the Reserve Bank of Australia's [monthly currency series](#) (F11).

48. The Allen Consulting Group on behalf of eBay, [Submission to the Productivity Commission](#), op. cit.

49. The submission used a model of the Australian economy to estimate the impacts of an additional \$100m in tax on 'other manufacturing'. Based on this, the submission argued 'It is clear that as the reduction in the low value import threshold would act like a tariff, that there would be an increase in output for the 'protected' industry — not retail — but other manufacturing ... Other manufacturing inputs such as motor vehicles suffer ... Potentially, this is due to the absorption of labour and capital into other manufacturing to fulfil the new domestic demand for output from this sector ... The decline in these industries' outputs leads to a reduction in their demand for labour' (Ibid., pp. 41–44).

50. Ernst and Young, [The threshold question: economic impact of the low value threshold on the retail industry](#), op. cit., p. 2

51. Ibid., p. 2.

52. Ibid., p. 2.

53. Productivity Commission, [Economic structure and performance of the Australian retail industry](#), op. cit., p. 169.

the GST, as a broad based consumption tax, should apply equally to all transactions'.⁵⁴ All other things being equal, if the GST were applied to low-value imports, it would provide higher revenue and remove a price distortion which disadvantages Australian retailers.

The key challenge in lowering the LVT, or in creating a lower threshold for GST exemption, lies in the administrative burden and associated costs. As outlined above, it is unclear whether a lower LVT would generate positive revenue, and at which level that might occur. Set too low, a lower threshold might be unable to cover the costs of collection, resulting in a net loss to revenue. In a constrained budgetary environment, it is unlikely that governments (at either a Commonwealth, or state and territory level) would pay a net cost to remove the distortion that the LVT creates.

The Australian Government could implement a system similar to those in other countries, where processing costs are charged for low-value parcels. This would enable the Government to remove the distortion faced by Australian retailers, while ensuring it is still able to collect revenue. In effect, fees would ensure consumers paid the administrative costs of collecting GST under a lower threshold.

A change to the LVT that resulted in lower net revenue levels would benefit retailers, but at a cost to state and territory governments. State and territory governments would benefit if there was an increase in net revenue, while Australian retailers would benefit from the removal of a price distortion and consumers would face higher costs for online purchases from international retailers. Whether the benefit to Australian retailers would outweigh the loss to Australian consumers depends on the level at which a new threshold is applied, and whether processing charges are needed to cover collection costs.

Negotiations between the Commonwealth and state and territory governments

On 27 November 2013 the Treasurer announced that the state and territory Treasurers had been provided with 'the material they had previously requested on the costs of any changes to the online threshold'.⁵⁵

The New South Wales Government has been supportive of changes to the LVT. After the Treasurers meeting in November 2013, the then NSW Treasurer commented that he looked 'forward to working with Joe Hockey to rectify this leakage in the system, which is in the long term interest of the states, the nation and our struggling retailers'.⁵⁶ Victorian Treasurer Michael O'Brien stated that the '\$1000 threshold is relatively high and the potential for deliberate avoidance is a concern for the long-term integrity of the tax system'.⁵⁷ With the exception of Western Australia, other state Treasurers are reported to be broadly supportive of a lower threshold for collecting GST on low-value imports.⁵⁸

Former West Australian Treasurer Troy Buswell had stated his intention to block changes to the LVT and the collection of GST on low-value imports. He described this as part of a negotiation strategy on the separate issue of GST relativities and how revenue is distributed to state governments. He took the view that there were 'very few points of leverage in the GST debate' stating that 'this is one and we intend to leverage that for all that we can, to try and get a fairer outcome for WA'.⁵⁹ Media reports suggest that the new West Australian Treasurer, Mike Nahan, holds a similar position.⁶⁰

At a meeting in March 2014, Treasurers agreed 'to further explore options around lowering the value at which GST is applied to the importation of goods into Australia'.⁶¹ Following a September 2014 meeting, the Federal Treasurer, Joe Hockey, stated that 'States indicated today that they had not agreed a preferred workable approach on this issue. The States may choose to raise this as part of the Tax White Paper process'.⁶²

54. Ibid., p. 210.

55. J Hockey (Treasurer), [Statement regarding meeting with State Treasurers](#), media release, 27 November 2013, accessed 14 October 2014.

56. M Baird (NSW Treasurer), [NSW welcomes Commonwealth agreement for action on infrastructure and online GST](#), media release, 27 November 2013, accessed 14 October 2014.

57. D Crowe, [State push to extend GST online](#), *The Australian*, 26 November 2013, accessed 14 October 2014.

58. S Steven, [State push for online GST slug](#), *Courier-Mail*, 26 November 2013, p. 10; L Keen and P Coorey, [Pressure grows to expand online GST](#), *Australian Financial Review*, 26 November 2013, p. 3; D Crowe, [State push to extend GST online](#), op. cit., all accessed 14 October 2014.

59. J Barrett, [Buswell vows to block online GST push](#), *Australian Financial Review*, 1 March 2014, accessed 14 October 2014.

60. F Anderson, [Pressure builds for online GST](#), *Australian Financial Review*, 20 March 2014; A Tillett and S Wright, [Hockey gets tough on online goods](#), *West Australian*, 29 March 2014, p. 20, all accessed 14 October 2014.

61. J Hockey (Treasurer), [Treasurers agree to boost infrastructure](#), media release, 28 March 2014, accessed 14 October 2014.

62. J Hockey (Treasurer), [Governments focus on growth and infrastructure](#), media release, 19 September 2014, accessed 14 October 2014.

Conclusion

Australian retailers face significant competition from online international retailers. Although this is due to a number of factors, one contributing factor is that the LVT exempts many imports purchased online from the GST.

Any reforms to the LVT will have impacts on Australian consumers and retailers, as well as the Commonwealth, state and territory governments. A key issue is the administrative cost or burden involved in any additional processing if the LVT were lowered. This could be transferred to consumers through processing fees and charges.

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